

**EMBARGOED UNTIL 9:30 A.M. EDT**

Text as Prepared for Delivery

July 25, 2000

**TREASURY DIRECTOR OF MULTILATERAL DEVELOPMENT BANKS JOSEPH  
EICHENBERGER TESTIMONY BEFORE THE SUBCOMMITTEE ON THE  
WESTERN HEMISPHERE, PEACE CORPS, NARCOTICS, AND TERRORISM  
COMMITTEE ON FOREIGN RELATIONS**

Mr. Chairman, Ranking Member Dodd, and distinguished Members of the Subcommittee.

Thank you for the opportunity to discuss the important role of the multilateral development banks (MDBs) in addressing environmental degradation in Latin America. The Inter-American Development Bank, the World Bank, and the Global Environment Facility are playing a key role, both directly and indirectly, in the region to address such issues as: air and water pollution, biodiversity conservation, forestry preservation, ozone depletion, and land degradation. Directly, the institutions are major lenders for environmental purposes, together financing over \$1.6 billion in Latin American in FY 1999. Indirectly, all are involved in promoting the policy and institutional reforms. The World Bank has rightly said, "...lasting poverty reduction is only possible if the environment is able to provide the services people depend on and if natural resource use does not undermine long-term development." We can all agree on that common sense principle.

The Treasury Department is actively engaged in MDB policy and project decisions related to environment and we have been successful in promoting a stronger environmental agenda within the banks. We have benefited greatly in these efforts from the keen on-going interest of Congress and civil society groups. I also want to acknowledge USAID's expertise on environmental issues and the very helpful collaboration it has had with us and the MDBs on a wide range of issues. But that said, there is clearly still a great deal of work to be done, and continued strong U.S. leadership will be essential. Today, I will focus my remarks on three main topics:

- I. The key environmental challenges in Latin America;
- II. MDB efforts to address these challenges; and
- III. U.S. priorities for the MDBs going forward.

## **I. Key Environmental Challenges In Latin America**

In Latin America, as elsewhere, natural resources have traditionally been viewed as a basis for revenue generation and economic growth, with important sustainability issues typically relegated to secondary status. Over time, this has led to over exploitation of the natural resource base upon which many of these economies depend. Fortunately, the view in the region is changing, as democracy has taken stronger hold, and as the basic economic logic of conservation and sustainable development has become better understood.

Meeting an increasing demand for energy is one of the biggest environmental issues faced by Latin American today -- be it through the use of forests as a fuel source or emissions from power generators, rural and urban areas suffer the associated environmental impacts of energy production and usage. Urban air pollution remains a key human health and environment issue, as does water pollution in densely populated areas. Much of the region's biodiversity resources are under threat from forest loss, soil depletion, water pollution, fisheries exploitation, land degradation from poor agricultural practices, unsustainable forestry practices, and overgrazing. The use of persistent organic pollutants (e.g., DDT), with their insidious impacts, is also another major challenge for the region.

The reasons for these problems are multiple and complex. Lack of institutional capacity has long been a constraint to implementing environmental policies and programs, and to managing the environmental implications of growth and development. In many cases, government policies in areas such as land use and energy pricing have directly encouraged activities that are contrary to sound, long-term resource management. Latin America's welcome efforts to build market-based economies have in some important respects outpaced its efforts to build capacity to regulate and monitor natural resource use and enforce environmental laws. Poverty itself can be directly responsible for unsustainable resources use, leading to a vicious cycle of need and overexploitation.

## **II. MDB Efforts To Address Environmental Challenges.**

We believe the MDBs need to play a significant and multifaceted role in helping Latin America deal effectively with these urgent environmental challenges. Over the past decade, we have worked hard to ensure that the MDBs take fully into consideration the direct impact of their projects on the environment. We have also given considerable emphasis to the important role of the MDBs in helping strengthen institutions across the region responsible for implementing and developing sound environmental policies for sustainable development and poverty alleviation.

With substantial leadership from the U.S., the Inter-American Development Bank, the World Bank, and the Global Environment Facility have dedicated significant amounts of resources to environmental protection. Globally, in 1999, these MDBs have provided close to \$4 billion for environmental efforts. For the region, the figures are also impressive. Despite the appropriate priority given to managing the financial crisis, in 1999 the IDB approved \$894 million in loans for environment and natural resources, or 9 percent of the Bank's overall lending total. FY 1999 World Bank lending in the region for environment totaled approximately \$458 million.

Both institutions have used loans, grants, and technical assistance to build diverse environmental portfolios in the Latin American and Caribbean region, with some very innovative projects. Most of the IDB and World Bank environmental loans in the region have been geared to address urban environment problems, improve the drinking water supply, and pollution control. They also provide technical cooperation to countries, in such areas as pollution control, institutional strengthening, coastal resources management, watershed management, and natural resources conservation.

To highlight several projects in particular:

- The IDB's Multilateral Investment Fund (MIF) and the Nature Conservancy co-sponsored the EcoEmpresas Fund to invest risk capital in NGOs, microenterprises, and small businesses that work to preserve the environment while making a profit. The IDB received a special recognition award from the Nature Conservancy for its work on this project.
- The IDB's Inter-American Investment Corporation (IIC) and a U.S.-owned environmental service provider have formed a strategic partnership to handle industrial waste and harness the recovered energy resources from waste material.
- The IDB is also supporting the Coastal Resources Management program in Ecuador with the assistance of the University of Rhode Island Coastal Resources Center.
- A World Bank Clear Air Initiative in Latin America will bring together city managers, development agencies, leaders from public sectors, and NGOs to address air quality problems in large metropolitan areas. This three-year program covers issues of environment, urban, transport, health, energy, industrial pollution, and global emissions, as they relate to the quality of the air in the cities of the most urbanized region of the developing world.
- The Meso-American Biological Corridor is a multidonor initiative which includes the World Bank and GEF investments in Belize, Costa Rica, El Salvador, Honduras, Mexico, Nicaragua, and Panama. This initiative is helping to protect the countries' terrestrial and marine ecosystems through a variety of projects, including by training indigenous peoples in natural resource management.
- In Mexico, the World Bank supported a project to test whether small and medium-sized enterprises can successfully adopt environmental management systems. The project enlisted the private sector, local academic institutions, and the Mexican Government.

These projects, and many similar projects reflect the MDBs' efforts to find innovative approaches to environmental challenges, including by forming public-private sector partnerships. We have encouraged such work by the MDBs as a concrete application of their particular assets and capabilities.

## **Global Environment Facility**

The Global Environment Facility (GEF) has emerged as the principal international funding mechanism to address global environmental challenges (e.g., international waters, biodiversity, ozone depletion, and climate change) facing developing countries and nations transitioning to market economies. Since its creation in 1991, the GEF has provided close to \$570 million directly in grants for operations in Latin America, which has leveraged \$1.3 billion in co-financing.

The GEF financed \$270 million, including co-financing, for Latin American projects in FY 1999. In 1999, every dollar provided by the U.S. has leveraged approximately \$10 from recipient governments, other bilateral donors, the private sector, and other multilateral institutions.

Examples of GEF Projects in Latin America include:

- Renewable fuel technology is being developed in Brazil. The GEF has worked with the Brazilian Government, General Electric, and private Brazilian companies to develop and demonstrate generating technology that uses wood chips from plantation forests for fuel.
- GEF is working with Colombia, Costa Rica, Panama, and Nicaragua to reduce pesticide runoff to the Caribbean Sea by developing and implementing management practices and national regulatory systems to control the use of pesticides and promote the use of alternative pest control systems.
- In Argentina, GEF is financing work with fisherman and tour guides off the Patagonian Coast to develop a plan enabling profitable fishing while protecting endangered whales, elephant seals, and penguins.

The GEF seeks to maximize its efficiency and impact by collaborating closely with other institutions, including the World Bank. In FY00, for example, joint World Bank-GEF projects equal to \$264 million were approved. In response to a new GEF policy supported by the United States, the regional development banks are preparing to implement GEF projects. The IDB has already proposed its involvement in two projects, a coastal zone management program in Jamaica and a technical assistance project in the Gulf of Honduras.

However, the GEF's ability to achieve its mission is being severely limited by financial constraints arising largely from the U.S. inability to deliver on our financial commitments. U.S. arrears to the GEF now total \$204.2 million, and will expand further if the low funding levels contained in the current Foreign Operations Appropriations bills for FY01 are maintained. The impact of U.S. arrears is further magnified by the fact that other countries are holding back their contributions until the U.S. makes a substantial contribution. The bottom line is that the GEF may find itself unable to make any new operational commitments beyond the fourth quarter of this year in the absence of some significant new U.S. funding.

## **Tropical Forest Conservation Act**

Though not a part of the MDB efforts on environment, the Tropical Forest Conservation Act (TFCA) bears mentioning. It is another priority in our environmental agenda. The TFCA, enacted in 1998, provides eligible countries the opportunity to reduce concessional debts owed to the United States, and at the same time generate funds to conserve or restore their tropical forests. While the debt reduction component of the legislation is modest, the amounts generated for tropical forest conservation programs are meaningful. For example, the roughly \$6 million that we have already set aside for Bangladesh's participation will leverage even more resources to conserve or restore its 1.5 million hectares of tropical forests, roughly half of which are in the southwestern Sunderbans region and home to the world's sole genetically viable population of 400 Bengal tigers.

Of the 10 countries that have requested participation in the TFCA, six are from Latin America (i.e., Peru, Belize, El Salvador, Paraguay, Ecuador, and Costa Rica). Of these, Peru and Belize, have already been certified as eligible and are now entitled to discuss innovative debt swap mechanisms that could generate additional funds for tropical forest conservation programs.

### **III. The U.S. Environmental Agenda In Latin American And How We Are Working To Ensure MDB Operations Reflect This.**

The U.S. has focused its efforts on MDB reforms in several areas to promote the overriding principle of environmentally sustainable development: (1) greater “mainstreaming” or integration of environmental concerns into regular operations of the MDBs; (2) more environmentally beneficial projects; (3) ongoing implementation of existing MDB operational policies on environment; (4) improvements in MDB policies regarding civil society participation; and (5) further enhanced transparency of the Bank’s operations. We pushed for progress on these fronts in our negotiations to provide financial replenishment and have been pleased with progress in some areas.

At the IDB, many of the positive developments stem from U.S. leadership in the negotiations for the eighth replenishment of the IDB in 1994 to press the Bank to provide greater protection for the environment. The accomplishments are wide-ranging:

- Development of new policies related to the environment, such as water resource management, coastal management, forestry, energy and sustainable agriculture development, including a commitment to not finance commercial logging in moist tropical forests;
- Lending for environmentally beneficial projects. Lending for environmentally beneficial projects has remained relatively constant since the General Capital Increase (GCI) at around 9 percent of the Bank’s portfolio. However, this figure may actually understate the environmental work of the Bank since many projects have positive environmental aspects even though the primary objective of the project is not environmental;
- Greater emphasis on energy efficiency. The Sustainable Energy Markets (SMSE) program, initiated in 1996, focuses on industrial energy efficiency, renewal and efficiency in urban

transport. The program has mobilized around \$5 million in external donor funds to prepare efficiency projects for implementation. In addition, IIC and MIF, both members of the IDB Group, are financing pilot projects under this program;

- Consultation with affected people and inclusion of resettlement plans as part of environmental impact assessments; and
- Development by Management of an information disclosure policy and creation of an independent inspection mechanism that will investigate charges by local people that the Bank has failed to follow its own operational policies.

As a result of the negotiations for a capital increase of the Inter-American Investment Corporation (IIC) in 1999, the IIC adopted a new policy regarding environmental and labor review of projects. The IIC has also adopted the IDB inspection panel function and, in January 1999, a policy regarding information disclosure was approved for the first time.

The IDB has created environmental units within each regional operations department to integrate environmental considerations into project preparation and implementation. It has adopted procedures to deal with any resettlement that might be entailed by projects. The Bank has adopted a Strategy for Integrated Water Resources Management and an implementation action plan that focuses on internal dissemination and mainstreaming of environment into Bank operations. The IDB has improved its capacity to integrate environmental considerations into its projects and programs. We were pleased with the involvement of civil society in the IDB's development of an energy strategy. Going forward, we want to see the IDB put greater emphasis on lending for renewable energy and energy efficiency projects. The IDB needs to reinforce its program of consultation with civil society to ensure this is an integrated element in all its operations. In this regard, we are working closely with the Bank as it prepares a formal framework for consultation and public participation.

During the 1998 negotiations for the twelfth replenishment for the International Development Association (IDA-12) -- the soft loan window of the World Bank, the U.S. pushed for a deeper set of reforms than those achieved in prior replenishments to better mainstream environmental considerations into both IDA projects and its policy dialogue with borrowing countries. In particular:

- Adequacy of country environmental policies and regulations as a performance criteria for allocating IDA resources;
- Integration of environmental issues into all Country Assistance Strategies (CASs);
- Using National Environmental Action Plans as a key element when designing Bank operations; and
- Greater IDA collaboration with the Global Environment Facility.

It should also be noted that other World Bank affiliated institutions are showing progress on the environment. The Multilateral Investment Guarantee Agency (MIGA) adopted new environmental disclosure policies in 1999, which are being implemented. The International Finance Corporation (IFC) is also moving forward to better incorporate environmental concerns into its lending operations.

The World Bank has made noteworthy progress in mainstreaming environmental issues into the Bank's operations. Serious gaps remain, however. We do not consider the Bank to have lived up to the expectation that it would make strong efforts to mainstream environment throughout its regular operations, as required by the GEF's second replenishment agreement. A progress report on the mainstreaming efforts outlined in IDA-12 is due in December 2000, which we will be carefully analyzing to see what areas are lacking. In addition, the Bank's Environment Strategy, currently under preparation, provides a mechanism for securing a better commitment from the Bank to integrate environmental issues into all operations. As a result of strong U.S. advocacy, an independent Inspection Panel was created in 1994 to examine alleged violations of Bank policies in the preparation and implementation of projects. In the policy area, we are following closely the ongoing conversion of advisory directives into more formal operational policies, especially in the area of resettlement and indigenous peoples.

Enhancing the transparency of these institutions and increasing public participation in countries' development programs are central policy goals of the U.S., particularly in terms of the environment. We have been at the forefront in calling upon these institutions to increase their disclosure of information in a timely manner. Over the last five years there have been notable successes (e.g., disclosure of country assistance strategies by the World Bank, and public release of environment impact assessments by both the IDB and World Bank for projects with a significant impact on the environment before project appraisal/analysis missions leave for the borrowing country).

We believe there is much more room for improvement in both the IDB and the World Bank policies and practices related to environment. The Banks' record on consistent implementation of safeguard policies and enforcement of their own procedures is a key concern to the U.S. The Banks, to their credit, are also aware that they need to do much more to ensure that staff and management make this a priority. Though we have made progress in improving the quality of loan documents related to environment and resettlement and making them publicly available in a timely manner, in part due to the requirements of the Pelosi Amendment, we still find projects which do not meet the Amendment's standards. We subsequently oppose any offending projects, sending a clear message to Bank leadership. We will continue to use our voice and vote to urge the Banks to meet higher environmental standards in accordance with the provisions of the Pelosi Amendment.

In a broader context, we are calling for a reform agenda for the MDBs to enhance their focus on the provision of global public goods, including the global environment, as a more forward-thinking approach to poverty reduction and the links between it and our environment and natural resources. We believe the MDBs must move away from financing sectors/projects that the private sector can easily do on its own and focus more on social programs and international public goods that the private sector will not or cannot finance, such as the environment. We

believe that the banks potentially have an enormous contribution to make in helping to push the frontier of international efforts to promote these kinds of goods, many of which will especially benefit developing countries. The GEF, obviously has a key role to play, but the World Bank and IDB also must show greater leadership in finding ways for the international community to better protect the global resource base we share.

#### **IV. Conclusion**

In concluding Mr. Chairman, I would like to emphasize the importance that the Treasury Department places on working to ensure that U.S. support of the MDBs helps to protect the environment and natural resources in Latin America, the Caribbean, and beyond. The U.S. has a strategic interest in helping our neighbors in the hemisphere achieve growth that also protects the environment. I would be pleased to answer any questions that you may have.

-30-